

--- Imposition of the Excise Duty: 1864 and 1867 ---

Chris Ryan, "Canadian Revenue Newsletter", No. 38, February 2002

"The 1864 introduction of an excise duty on tobacco products manufactured in the Province of Canada was a result of the 1854 reciprocity treaty with the United States of America combined with conditions in the American tobacco industry brought on by their civil war."

"Under the terms of the reciprocity treaty manufactured tobacco entering Canada could be subjected to a customs duty, while raw unprocessed tobacco could be admitted free. The United States was by far Canada's most important source of imported tobacco, supplying (in 1860) 98.1% of the manufactured tobacco and 99.9% of the raw tobacco imported into this country. According to the United States census of 1860, the Confederate states possessed 65.3% of American tobacco manufacturers, who generated 67.0% of the total value of the national production. The States of Virginia and North Carolina alone held 57.2% of the industry producing 61.2% of the total value."

"Beginning in 1861, the northern Union began an economic and naval blockade of the southern Confederacy. This blockade became far more effective in subsequent years and thus resulted in the withdrawal of two-thirds of the domestic supply for the heavily populated Union states. The extent to which the Union succeeded in obstructing the distribution of the Confederacy's manufactured tobacco is indicated by the 1866 report of the United States Commissioner of Internal Revenue as follows":

"Large quantities of tobacco manufactured in the South before the war and during its progress were thrown upon the market during the past year, to the great derangement of trade and the embarrassment of regular manufacture".

"This state of affairs in the United States was probably responsible for a sharp decline in Canada's imports of manufactured tobacco products during 1862 and 1863. Accompanying this decline was an immense increase in imports of raw leaf. ... This shift to the importation of customs duty-free raw tobacco was the motivation for the imposition of Canada's excise duty on domestically produced tobacco products."

"The new excise duty was announced in the budget speech of May 10th 1864, and was to take effect on July 1st of that year. However, on the evening of May 31st, formal resolutions were drafted by a committee of the Legislative Assembly and put into effect as of June 1st. These resolutions imposed an excise duty on all new production as well as all stocks on hand at manufacturers of partially or completely manufactured tobacco products. All dutiable stocks were to be immediately secured by excise officers. Release of such stocks for consumption required the permission of the excise officer in payment of the duty to which they were liable."

"The sudden imposition of the excise duty and the immediate seizure and sealing of stock on hand at manufacturers by excise officers were reported by two Toronto newspapers as follows":

"Considerable excitement prevailed yesterday among the tobacco manufacturers upon the publication of the news that the duties upon tobacco had come into effect. Large stocks are held by many among them, and there are, we believe, large contracts to be filled. The Revenue Inspector yesterday visited the manufactories and sealed the stocks."

"It was not until between eight and nine o'clock yesterday morning that the excise duties on tobacco came into force. Previous to that time several parties interested in the manufacture of the article had seen the newspapers, and removed a good deal of tobacco from the factories, hoping thereby to avoid the imposition of the new duties. The excise officers took a different view of the matter. They regarded the law as in operation from midnight, although they had not been officially advised to that effect until morning; and seized all the tobacco that had been removed that they could lay their hands upon. A difficulty is apt to arise on this point which may require settlement in the Customs' Department at Quebec. The manufacturers also complain of the duties affecting whatever tobacco they may have on hand, while the stocks held by dealers do not come under the operation of the law. They speak of sending an agent to Quebec to remonstrate with Government on this score."

"The reaction of the tobacco industry to the application of the duty to stocks on hand was predictably negative. Protests occurred immediately and these culminated in the presentation of formal petitions to the Legislative Assembly from tobacco manufacturers in the cities of Hamilton, Montreal and Toronto. Members of the Assembly took up the manufacturers' cause and pressed the government on the issue."

“On June 27th the government relented and exempted the fully-manufactured stocks on hand at manufacturers as of May 31st. The legislation as passed on June 27th and assented to on the 30th, also provided for the non-payment or refund of duty collected on stocks released during June in fulfilment of contracts made prior to June 1st.”

“With the exemption granted to manufacturers, excise officers were now required to differentiate between duty-free products completely manufactured prior to June 1st, 1864, and dutiable products manufactured on and after that date. It is apparently to this end that the Act gave until June 30th for tobacco manufacturers to submit a detailed inventory of raw and manufactured tobacco on hand. This inventory was to include the number of packages held, as well as their individual weight, contents, origin and date of entry into the premises. Upon receipt of the inventories, excise officers were to visit the manufacturers and affix stamps to the packages.”

“Complementing the inventory and stamping of manufacturers’ stocks on hand were similar provisions regarding stocks held by wholesale and retail dealers. These stocks were not subject to the new excise duty. The deadline for the vendor inventories was set by Statute at August 1st, 1864. However, difficulties in enforcing these provisions must have occurred as this deadline was extended twice. The first extension was to August 20th, the second to September 10th. Yet, despite the extensions, the requirement that the tobacco products were to have been in stock prior to August 1st remained in force.”

“It also appears that, by means of an as yet undiscovered circular or directive, a similar extension was granted to tobacco manufacturers for the fulfilment of their pre-June 1st contracts. This is noted in a report of July 9th, 1864, meeting of Toronto tobacco manufacturers”:

“ ... the Finance Minister, who, acting conscientiously as a public officer, and having great difficulty in raising the supplies necessary to carry on the government of the country, was nevertheless willing to concede that all orders not filled to the first of July should be completed excise-free.”

“A literal reading of the above would place no termination date for the completion of the contracts. But it seems likely that the government would have imposed some form of deadline. The potential for abuse would have caused the absence of a deadline to be a highly undesirable situation. In any event, a new delivery deadline would only be significant for tobacco manufactured on and after June 1st as older stock could be delivered free of excise duty.”

“The above quote refers only to the fulfilment of pre-June contracts and not to the submission of the inventory. However, it is highly probable that a similar extension was granted for the inventory. As was the case with the initial deadline provided by the Statute, the new deadline for both contracts and inventory would logically have been the same date. This new deadline was evidently July 31st or August 1st, 1864. The reasoning for these suggestions is as follows:

1. The Act gave tobacco manufacturers only **three days’** notice to submit the detailed inventory and to complete all of their pre-June contracts by June 30th. This would have made that date an impossible deadline.
2. To the best knowledge of this writer, there is a complete absence of any stamps whatsoever bearing the inscription ‘**In Stock Prior to July 1st, 1864**’. This is especially significant in light of the immense stocks held by tobacco manufacturers at the introduction of the excise duty. The size of these duty-free stocks is alluded to in the Inland Revenue Report for the year ending June 30th, 1870, as follows:

The tobacco manufacturers had, for some time previous, anticipated the imposition of this duty, and large stocks of the manufactured article were accumulated, which escaped the tax, consequently, the amount of revenue received from this source during the first two years was no index to the demand for consumption during that period; indeed, there is reason to believe that the quantity of duty-paid tobacco taken for consumption even in the third year of the tax was considerably affected by the old duty-free stocks still on hand.

3. The stock-books to be used by manufacturers for the record keeping required under the Act (in connection with the newly introduced semi-monthly returns) were not available until about August 11th. On that date, notices regarding the availability of such books appeared in newspapers for the very first time.”

“The stamps used for stocks on hand in 1864 at both *manufacturers* and *dealers* in Upper and Lower Canada were **RM-1 / RM-2a** and **RG-1 / RG-2a**. On the basis of the evidence previously presented, combined with the use of **RM-12** in 1867 for duty-free stocks held by both manufacturers and dealers in Nova Scotia and New Brunswick, the significance and application of these stamps have been surmised as follows”:

M- represented 'Manufactured', and therefore duty-free

"Was used on fully manufactured stocks held by manufacturers prior to June 1st, 1864, and on dealers stocks held prior to August 1st, 1864, and still on hand at the August / September inventory submission and stamping of such stocks".

D - represented 'Dutiable'

"Was used on manufacturers' stocks produced after June 1st, 1864, and still on hand at the August / September inventory submission and stamping of such stocks".

"When the Provinces of Nova Scotia and New Brunswick joined with Upper and Lower Canada on July 1st, 1867, the terms of Confederation decreed that the existing laws of excise and customs in each of the Provinces would continue in force until replaced by the new Federal Parliament. This replacement occurred on December 13th, 1867. The budget provisions passed by Parliament ... essentially extended the old Acts of the Province of Canada to New Brunswick and Nova Scotia. However, the new Customs Act neglected to provide for the stamping of imported tobacco products. This oversight was rectified by an Order in Council on December 28th, 1867."

"As had been the case in 1864, existing stocks held in 1867 by both manufacturers and dealers in the Maritime provinces were exempt from the new Dominion excise duties. However, in 1867 the exemption was applied immediately upon the introduction of the new duties, unlike the retroactive provisions of the 1864 Statute. Given this situation, there was no need in 1867 to differentiate for excise purposes between dutiable and duty-free stocks on hand as had been the case in the Province of Canada in 1864. Thus, there would not have been a need for '**D**' stamps, and no such stamps are currently known to this writer." ...

"The **green** 'duty-free' stamps of 1867 may have been available for use up until February of 1868. On the 22nd of that month, a recall notice was issued to Collectors of Inland Revenue."

"As discussed previously for **RM-1**, the budget resolutions put into effect on June 1st, 1864, required payment of the excise duty on tobacco products prior to their release for consumption from the custody of an excise officer. No provision was made for the bonded warehousing of dutiable goods on the premises of manufacturers. The *Public Accounts* for the fiscal half-year ending June 30th, 1864, shows that excise duty was collected on a very small amount of manufactured tobacco during the month of June 1864. The duty-paid, 'consumption' excise stamp affixed to these early stocks was very likely **RM-3**. This type of consumption stamp is known bearing a date of January 1865. ...

In the case of *Crown versus BABN*, George B. Burland testified that verbal arrangements had been made in 1868 for production of the tobacco revenue stamps not covered by the contract. According to Burland, officials of the Revenue Department had agreed to '***the best work that could be produced from steel lithographically printed***'. Amongst supporting documents, the defence presented letters date from 1870 from the Commissioner of Inland Revenue in which lithographed tobacco revenue stamps were acknowledged as the accepted norm up to that time.

These lithographed tobacco stamps were purchased by BABN from the then current incarnation of Burland's lithographing company and sold to the government at an advance over the purchase price. Evidence presented in the *Crown versus BABN* case indicates that initially the majority of the lithographed stamps were purchased in a completely finished form. By 1880, the perforating and numbering was done primarily by BABN."

"A notice ordering Nova Scotian manufacturers and dealers to have their existing stocks stamped as duty-free was issued December 13th, 1867, and published in the *Halifax Chronicle* on December 14th. It read as follows:

... Tobacco, Snuff, and Cigars, no being held in stock, being exempt from duty under the act, manufacturers and dealers in the County and City of Halifax will make immediate application to Samuel Tupper, Esq. Collector of Inland Revenue for Halifax, to have the same stamped in accordance with the requirements of the Act and the regulations of the Department.

Arrangements will be made for the immediate stamping of stocks held in the Province outside of Halifax by the Collectors of Customs in the several localities.

"The central text of **RM-12** indicates that it was applied to manufactured tobacco products other than cigars. An 1885 philatelic publication describes a similar stamp for cigars. This second stamp is currently unknown to this writer. However, the diamond shaped green cigar stamp [**RG-19**] dates from the 1867 period. This stamp would thus appear to have been used on the duty-free stocks."

“The green, ‘duty-free’ stamps of 1867 may have been available for use up until February of 1868. On the 22nd of that month, a recall notice was issued to Collectors of Inland Revenue as follows:

All Tobacco and Cigar Stamps in your possession as per samples enclosed, are to be forwarded to this Department with a specification showing quantities of each.

While this notice does not explicitly mention the green, ‘duty-free’ stamps, a notation in a September 11th, 1868, circular indicates that these stamps were probably included in the recall. The notation reads as follows:

Green labels of a similar description have also been used in the Excise for stamping stocks of Tobacco on hand before the Excise duty was imposed. They are no longer in use and have been called in.”

--- The British American Bank Note Company - “Series of 1868” ---

Chris Ryan, “Canadian Revenue Newsletter”, No. 39, May 2002

“As of February 8th, 1868, the government of Canada entered into a contract for security printing with the British American Bank Note Company (BABN). An original copy of this manuscript contract is on file at the National Archives of Canada in Ottawa, Ontario. In this document, the scope of the agreement is given as follows: BABN

will engrave all the necessary plates and dies, and print therefrom and furnish as when the same shall from time to time be required, all blanks for notes, bills, bonds, debentures and all note, bill and postage stamps, and all other engraving, excepting type printing which may be required by the Government of Canada ...

Note that the terms ‘engraved’ and ‘engraving’ were used in these documents to mean ‘steel-plate’ (intaglio) production. During the lifetime of the BABN contracts (1868-1897), printing plates, whether of steel or in the form of a lithographing stone, were not ‘engraved’ in the proper, technical sense of the word. Dies were engraved for the tobacco stamps, plates were not. Lithographed tobacco stamps were usually printed from a stone impression made by transfers from a steel die or plate. ...

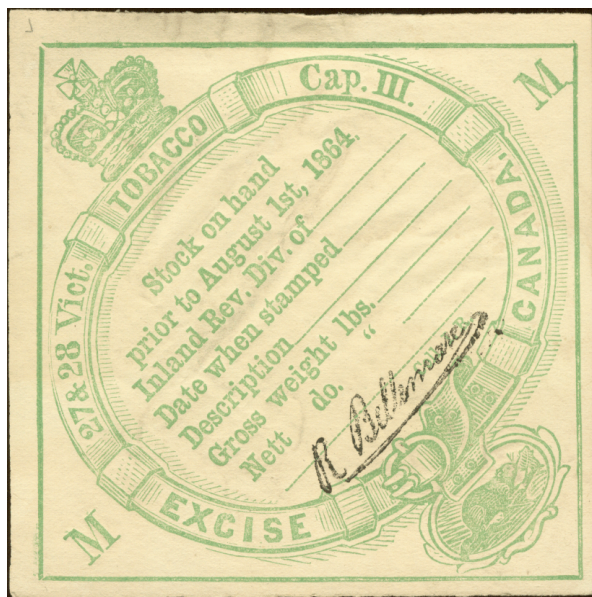
The first issue of BABN manufactured tobacco stamps comprised two square stamps *in red* for *warehousing* ‘caddies’, and ‘boxes’ of manufactured tobacco. ... Corresponding *consumption* stamps were produced *in black* with the fourth line of the central inscription being ‘*Semi-Monthly Return No.*’ in place of the ‘*Warehouse Entry No.*’ as found on the warehouse stamps. As was the case with the previous typographed stamps, the new lithographed BABN stamps *did not* have serial numbers. However, unlike the previous issues, the BABN stamps were supplied without gum and it was now the responsibility of the tobacco manufacturers to supply a suitable adhesive.”

--- RM-1 / RM-2 - “Series of 1864”- Manufactured Tobacco - 27 & 28 Vict. - Cap. III ---

--- by “George Desbarats & Son”, Montreal - the design measures 95 x 95 mm. - scanned at 75% scale ---

--- lithographed and typographed in GREEN ink - on *unwatermarked* thick wove paper - imperforate ---

--- inscribed “Stock on hand / prior to August 1st, 1864.” ---



★RM-1 - BOXES, lithographed in light green on *unwmkd* thick wove, full gummed, with **D** **D** in the corners,
--- 2 copies ★★---

★RM-2 - BOXES, lithographed in light green on *unwmkd* thick wove, ungummed, with **M** **M** in the corners,
stamped at Montreal **R. Bellemare** Coll. I.R.

Chris Ryan’s research indicates that the “**D**” stands for a tobacco product, manufactured between June 1st and July 31st 1864, still on hand at the time of the general inventory taken to determine the stock on hand at the manufactory as of August 1st 1864, as such it was **D**utiable when Upper and Lower Canada joined.

“**M**” stands for **M**anufactured tobacco, fully manufactured and held by the producer prior to June 1st 1864, as well as all dealers stock held prior to August 1st 1864, as such exempt from taxation.

The collection *does not* contain a copy of **RM-2a**, which is printed on light blue *laid paper* - **WANTED!**

--- RM-12 - "Series of 1867"- with "M" at the corners - 27 & 28 Vict. - Cap. III ---

--- George Desbarats & Son, Montreal - *imperforate* - the design measures 95 x 95 mm. ---

--- lithographed in GREEN ink - on *vertically laid paper, diagonally watermarked EXCISE 1867* ---

--- inscribed "**Stock on hand / prior to December 12, 1867**" - scanned at 75% scale ---



★RM-12 - BOXES, lithographed in light green ink vertically laid paper, diagonally watermarked *Crown / EXCISE / 1867* with M M in the corners, used January 1868 at *St. John* on 50 pounds of *Cavendish*

★RM-12 - BOXES, lithographed in light green, imperforate, on *diagonally wmkd crown / EXCISE / 1867* vertically laid paper, used at *St. John, N.B.*, in January 1868, for 39 nett pounds of *Cavendish* tobacco, signed in black ink *S. Gerard* Coll. I.R.



RM-12 - BOXES, lithographed in light green, imperforate, on *diagonally wmkd crown / EXCISE / 1867* vertically laid paper, used at *St. John, N.B.*, on January 8th 1868, for 56 nett pounds of *Cavendish* tobacco, signed in black ink *S. Gerard* Coll. I.R. - *from the collection of Fritz Angst*

--- RM-12 - "Series of 1867"- Manufactured Tobacco - 27 & 28 Vict. - Cap. III ---

--- by "George Desbarats & Son", Montreal - the design measures 95 x 95 mm. ---

--- lithographed and typographed in GREEN ink scanned at 75% scale ---

--- on *diagonally watermarked crown* / **EXCISE** / **1867** vertically laid paper ---

--- imperforate - inscribed "**Stock on hand / prior to December 12, 1867.**" ---



RM-12 - BOXES, lithographed in light green, imperforate, on diagonally wmkd **crown** / **EXCISE** / **1867** vertically laid paper, used at *St. John, N.B.*, on *Jan., 8th 1868*, for 49 nett pounds of *Cavendish* tobacco, signed in black ink *S. Gerard* Coll. I.R. - *from the collection of Fritz Angst*

Chris Ryan's research (see the foreword to this section) indicates that when Nova Scotia and New Brunswick joined with Upper and Lower Canada the terms of Confederation decreed that the existing provincial laws of Customs and Excise should remain in force until they were replaced by those of the new Federal Parliament. This occurred on December 13th 1867. Thus existing stocks held in plant or warehouse by manufacturers and dealers in the Maritimes prior to this date were exempt from the new Dominion duties, and were stamped with **RM-12**. There are no known examples of a parallel "**D**", for Dutiable, stamp in 1867.

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